Roadmap for Implementing
Michigan's New Energy Policy

Stakeholder Group Meeting Summary

Monday, October 19, 2015
8:30 AM–12:00 PM

Michigan Public Service Commission
Lake Huron Conference Room, First Floor
7019 West Saginaw, Lansing

Stakeholder Group Members Present

Mike Moody (co-chair and nonvoting ex officio), Michigan Department of the Attorney General (AG); Teri Van Sumeren, Consumers Energy (alternate for Brandon Hofmeister); Chrissy Beckwith, SEMCO Energy; James Clift, Michigan Environmental Council; Dan Dundas, Senate Majority Policy Office; Kwafo Adarkwa, ITC Holdings Corp.; Laura Chappelle, Energy Michigan; Don Stanczak, DTE Energy; Andrew Vermeesch, Michigan Farm Bureau; Craig Borr, Michigan Electric Cooperative Association; Jim Ault, Michigan Electric and Gas Association; Greg Clark, Indiana Michigan Power; George Andraos, Ford Motor Company; Jean Redfield; NextEnergy; Jill Steiner, Cadmus

Steering Committee Members Present

Valerie Brader, Michigan Agency for Energy (MAE); Mary Maupin, Michigan Department of Environmental Quality

External Support Staff Present

Julie Metty Bennett, Public Sector Consultants (PSC); Eric Pardini, PSC; Terri Novak, MAE; Rich Sedano, the Regulatory Assistance Project (RAP)

Presenters

Mathias Bell, Opower; Greg Poulos, EnerNOC

Other Attendees

Dave Isakson, MPSC; Rob Ozar; MPSC

Informal Meet and Greet

Prior to the start of the stakeholder meeting, participants were given the opportunity to speak with their fellow stakeholders during an informal meet and greet.

Welcome from the Co-chairs, Introductions, Review Agenda, Review and Take Comments on Meeting Notes

Next, stakeholder group co-chair Mike Moody welcomed participants to the meeting. He thanked stakeholders for their attendance and asked them to introduce themselves.

After introductions, Mr. Moody provided an overview of the meeting's agenda. He explained that stakeholders would first be given a charge from the steering committee, then discuss the vision statement generated from their discussion during the prior meeting. Following this discussion, the group would have a chance to hear from a panel of industry professionals representing different customer classes and various perspectives on demand response.

Project manager Julie Metty Bennett asked if members had any suggestions or revisions to the proposed summary before it is posted on the project website. There were no comments or suggestions.

Charge from the Steering Committee

Valerie Brader—executive director of the Michigan Agency for Energy—presented the steering committee's charge to the stakeholders. In the charge, the steering committee outlines what topics they would like stakeholders to explore and gives them specific questions to respond to. Ms. Brader explained that the steering committee would like stakeholders to account for differences between customer classes in their discussions. She noted that what makes sense for residential customers will likely be different than what works best for industrial customers.

Ms. Bennett added that, related to this topic, the MPSC recently kicked off a demand response workgroup. Dave Isakson was asked to describe the MPSC's demand response team he is leading. Mr. Isakson explained that his team is developing an action plan around demand response for the state. Part of their plan is to create a potential study for demand response in the state. The group plans to perform a meta-analysis, which would compile the different studies already performed to help the commission understand what has already been written about demand response potential.

Ms. Bennett further explained that the steering committee believes that answering the questions contained in the charge, even at a high level, would be valuable. This would go hand in hand with the work that was being undertaken by the MPSC. She added that the charge will provide direction for future discussions. There may be more places where more data is necessary, but in the meantime the group can add value by answering any of the questions in the charge they can. Ms. Brader concluded by saying that it is not the intent of this group to specifically say what demand response programs should be, but rather to define successful overall approaches.

Review and Discuss Vision Statement

During the previous stakeholder group meeting, participants completed a brainstorming exercise. The discussions that emerged from the brainstorming activity were used to generate a vision statement for the stakeholders' work on demand response. The project management team has prepared a draft vision statement that the steering committee has helped refine. Stakeholders reviewed the draft vision statement and provided feedback. Their comments and suggestions are summarized below.

- The first sentence in the vision statement lays out a very broad purpose: "The principal purpose of the Roadmap for Implementing Michigan's New Energy Policy Stakeholder Group is to provide recommendations to the Michigan Public Service Commission, Michigan Agency for Energy, and the State of Michigan so that the implementation of the state's new energy policy provides for the

health and prosperity of Michigan residents and businesses—while fostering an atmosphere where Michigan can achieve new economic opportunities, and become a regional and national leader." A stakeholder questioned whether the statement should deal more specifically with what is achievable through demand response programs and less with high-level impacts.

- The first sentence *is* the high-level goal of the roadmap process; the goals for demand response should be specific and feed into larger statewide goals.
- The group should avoid over-relying on demand as a resource because it can vary from year to year. Over-reliance could lead to undersupply of capacity. The groups should focus on how demand response can be achieved as a sustainable resource.
- This concern can be addressed through proper planning.

There were no additional comments about the vision statement. The project management team said that if stakeholders had additional comments or suggested revisions, they could submit those via e-mail. A revised vision statement would be presented at the next stakeholder group meeting for approval.

Demand Response Deep Dive

The next item on the day's agenda was a panel discussion on demand response. The steering committee asked representatives from each customer class to participate in the panel and describe the role that demand response plays in their operations. George Andraos of the Ford Motor Company was asked to present on the perspectives of industrial customers, Greg Poulos of EnerNOC was asked to speak for commercial customers, and Mathias Bell of Opower provided the residential customer class perspective.

Mr. Andraos kicked off the panel by describing how the Ford Motor Company uses demand response. According to Mr. Andraos, Ford's demand for electricity is constant, and their demand profile is roughly the same year-round. He noted that, like other customer classes, Ford's consumption increases during the hottest days of the summer, but the increase is minimal. Mr. Andraos explained that, due to the nature of Ford's manufacturing activities, the cost to shed some load is incredibly high. Currently, the company can manageably shed ¼ MW or ½ MW of load out of their total 20 MWs of demand. To be competitive, facilities need to run at 90 percent efficiency. Having to stop production can cost a company millions of dollars. This is part of the reason why there is such a large amount of backup generating capacity in manufacturing centers, like Dearborn.

Mr. Andraos explained that when companies like Ford see cost savings, they are more than willing to invest. The company has recently invested $25 million in LED lights because it was the right decision from a business and environmental perspective. They are constantly trying to reduce their energy consumption, but this is the opposite of how utilities' incentives work. Until the incentives can be changed, there will be a tension between utilities and programs that reduce load.

Mr. Andraos suggested the partnerships Ford has with utilities in Ontario can serve as possible examples of how industrial customers in Michigan can participate in demand response programs.

Next up on the panel was Greg Poulos from EnerNOC. Mr. Poulos spoke about how EnerNOC helps small and medium-sized commercial customers reduce their energy consumption through aggregation activities. His complete presentation is available on the project website.

The final panelist was Mathias Bell representing Opower, which specializes in customer engagement and behavioral demand response programs that help residential customers reduce their energy consumption and save money. Mr. Bell's complete presentation is available on the project website.

Additional discussion occurred after the panel concluded their presentations and is summarized below; some statements are attributed to specific group members, but not all.

Demand Response Potential Study

For the first topic from the charge, Ms. Bennett asked the group to respond to whether it would be valuable for the MPSC to conduct a potential study for demand response programs in Michigan.

- Mr. Poulos answered that knowing the potential would be helpful for the state.
- Mr. Andraos agreed that a study would be helpful. He added that he believes there is an opportunity for industrial customers to participate, and there is a lot of seldom used backup generation that could be utilized more effectively.
- Mr. Bell responded that there hasn't been a comprehensive demand response potential study in years. The most recent national study by the Federal Energy Regulatory Commission was completed nearly seven years ago, before the large scale deployment of advanced metering infrastructure (AMI). There are two characteristics that a potential study should take into consideration, how long does it take to reach the desired demand response, and how long is demand response useful for.
- Without the understanding of what is feasible, it will be hard to compare and contrast between demand response and a supply side option. The data and boundaries from a study allows you to debate.
- A statewide study is a one-size-fits-all approach. There are differences between AMI and advanced meter reading utilities.
- A demand response potential study can be a starting point, but it shouldn't be "one and done." It would be helpful to have a statewide baseline for demand response potential, but it will need to be revisited.
- Yes, the study would need to be revisited because program operators will learn as they implement these demand response programs, and can become more efficient or accurate in measuring program effectiveness.
- A potential study would become an important piece of the IRP, should the state decide to include the IRP requirement in its energy policy overhaul.
- States should also know what the potential for demand response is for compliance with the clean power plan.

Customer and Utility Compensation

The next topic stakeholders discussed was how compensation for demand response should be structured.

- Compensation will need to be consistent with the RTOs, but there needs to be flexibility to offer different types of payment arrangements. For some businesses, it is better to have a system where they receive a payment instead of simply a cost reduction; this works better for accounting departments.
- In general, demand response programs are more effective if they include an availability payment. For most customers, the availability payment is critical because it lets customers know they are going to get something for their efforts. This incentivizes customers to participate in programs. There was a study performed by the National Economic Research Associates that talks about the use of availability payments, this study can be found here. For example, in Pennsylvania, customers get an availability payment, but they do not get paid when they are asked to curtail load. Overall, some form of an availability payment—together with an energy payment—could be a good model to incentivize customer participation.
- From a practical standpoint, a penalty is a harder sell for business customers.
- Customers need clear signals of pain and gain.
- What are the penalties for customers who do not show up in case of significant need? There need to be consequences in order to make sure there aren't systemwide impacts to the grids if demand response resources aren't available.
- Larger penalties can act as a deterrent for customers signing up.

Measurement and Verification Methodology

Next, Ms. Bennett asked stakeholders to discuss what forms of measurement and verification are necessary for demand response programs.

- Opower runs a randomized control trial to determine success in demand response programs.
- Michigan could rely on using what Midcontinent Independent System Operator (MISO) has in place as the test for resource qualifications.
- Currently, MISO does not test its resources to see if they will be available. There needs to be some measure of reliability for these resources.
- Lessons can be learned from the Clean Power Plan about Energy Resource Credits trading across regional entities.

Potential Changes to the Regulatory Framework

The final question in the steering committee's charge to stakeholders asks, what changes need to be made to make it easier and more advantageous for customers to take advantage of demand response and for utilities to offer demand response options. Ms. Bennett prompted stakeholders to discuss this topic.

- Demand response runs directly in the face of the traditional utility business model because it asks utilities to participate in lowering their sales. There needs to be a way to change this system, such as allowing utilities to earn an increased rate of return for pursuing demand response programs.
- If we continue with the current model of utility compensation, the implications could be that overall rates go up because energy consumption is reduced.
- There is a significant difference between making the utility whole and offering an incentive.
- The more you invest in capital, the better off your shareholders are. These noncapital (e.g., demand response) options are not the same and so utilities don't pursue them.
- Historically, the MPSC was given broad authority over setting rates under the reasonable and prudent standard. More recently it seems the courts have ruled, due in part to new legislation, that if an authority is not specified in statute then it is out of the commission's broad authority.
- Current legislative discussions are considering what can be included or excluded under the Commissions broad regulatory authority.
- The underlying question is: Can demand response programs be considered cost-effective?
- Cost-effectiveness has to be an underlying principle of any program—whether it is demand response, energy efficiency, or another utility program.

Wrap-up and Next Steps, Next Meeting Monday, November 16 at 8:30 AM

Ms. Bennett thanked everyone for their attendance and explained that materials for the November 16 meeting would be distributed approximately two to three weeks prior to the meeting.